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SUBJECT: OMAN'S SME SECTOR TO BENEFIT FROM MEPI ASSISTANCE

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Summary  
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**¶1.** (U) With funding from the Middle East Partnership Initiative (MEPI), a consulting team from Booz Allen Hamilton is advising the Ministry of Commerce and Industry's Directorate General of Small and Medium-sized Enterprises (SME) on both developing an internal organizational workplan for the office and defining its role in promoting SME growth in Oman. Meetings with Omani government and private sector officials revealed substantial interest in supporting entrepreneurs through a strengthened SME Directorate General and looked to the office to provide leadership in promoting SME-friendly policies. The consultants presented their preliminary findings to the Ministry's Under Secretary on June 11 and will return in August to conduct follow-up meetings with relevant stakeholders. End Summary.

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SME Support Programs  
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**¶2.** (U) A number of programs are already available in Oman to encourage SME growth. Abdullah al-Jufaili, Director of Intilaaqah ("take-off"), remarked that his program's mission was to train a cadre of young Omani entrepreneurs to operate microbusinesses that had been previously run by expatriates. Intilaaqah, part of Shell Oman's social investment program, has graduated 5,424 entrepreneurs. Sixty-five percent of the graduates are female, and 37% of all participants still run their own businesses. Reflecting on the role of the SME Directorate, Jufaili highlighted the need for the organization to improve the SME environment and identify relevant sectors ripe for SME development.

**¶3.** (U) Complementing Intilaaqah's efforts is the recently established GroFin project, a \$10 million enterprise fund sponsored by the Shell Representative Office in Oman to provide financing to those Omani entrepreneurs unable to obtain bank financing on the account of lack of collateral. Niel Brand, Investment Manager for GroFin, stated that the company, now lends to approximately 11 clients per year, with an average loan size of 240,000 Omani rials (RO). GroFin helps clients develop their business plans, but Brand explained that budding entrepreneurs generally require further assistance in running their businesses.

**¶4.** (U) In addition to Shell's efforts, the government, through the Ministry of Manpower, assists aspiring Omanis through the "Sanad" program. Samir bin Ahmed al-Nabhani, Sanad Executive Director, noted that since its establishment in 2001, Sanad has loaned out 5 million RO to microbusinesses

in 22 sectors, including cell phone repair, cybercafes, and beauty parlors. With Sanad's low interest rate of 2% and generous repayment terms, Nabhani estimated that there were 1,500 active loans, with a ceiling of 5,000 RO per loan. Successful applicants receive their Sanad loans through the Oman Development Bank, and also are able to benefit from the program's business counseling initiatives. Going forward, the Executive Director is looking to create a formal business development center and sponsor a college incubator with specialization in biotechnology, engineering, and information, communications, technology. With regard to the SME Directorate, Nabhani recommended that the office push for legislative changes favoring SME development; however, he cautioned against offering loans and consultative services, which would replicate ongoing efforts.

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Banking Sector Interested  
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¶15. (SBU) The banking sector, in general, is showing greater interest in SME lending. Malik Mahrooqi, Business Development Manager for the Central Bank of Oman, stated that the time was ripe for the government to encourage SME lending as a way for banks to diversify their portfolios. He called on commercial banks to move from their current focus on profitable personal loans to developing their productive loan portfolios. Banks have already begun to look closer at the sector, according to Mahrooqi, but that entrepreneurs need to "know their businesses better" in order to take advantage of these initiatives.

¶16. (SBU) Samir Saied, General Manager of government-owned Oman Development Bank (ODB), commented that his bank's primary purpose was to support SME development. With a total capital base of 40 million RO and an average loan size of 100,000-200,000 RO, ODB currently has 11,000 active loans, 80% of which are concentrated in companies with less than \$5,000 in capital. Saied estimated that 60% of the bank's loan portfolio goes to existing businesses, while the remaining 40% goes to start-ups. The bank, which offers 3% interest rates, works with entrepreneurs to develop feasible cash flow projections to facilitate start-ups. Saied, who called on entrepreneurs to do "a better job" on developing their business plans, commented that the bank is looking to reduce its non-performing loan rate from 25% to 15%.

¶17. (SBU) From a commercial banking perspective, Abdulnasir al-Raisi, Head of SME Lending for Bank Muscat, commented that the bank offers a full-service department for SME financing under the "al-Wathbah" banner. Under this program, Bank Muscat provides six main financing products for entrepreneurs, including contracts, equipment, imports, receivables, and capital financing. In addition, the bank offers counseling to prospective clients in developing business plans, as well as a training center, where it brings in experts to advise clients on best practices.

¶18. (SBU) Raisi cautioned that Bank Muscat, prior to its launching of al-Wathbah, was "burned" by the SME sector. To ensure better quality SME loans, he explained that the bank had created a scoring system to evaluate loan applications. With these efforts, the bank now has 1,800 clients and an SME capital base of 80 million RO in 2008. The loan portfolio is shared equally between medium and small businesses, and Raisi noted that the bank is willing to lend to fresh start-ups, so long as they have a sound business plan.

¶19. (SBU) On the potential role of the SME Directorate, Raisi stated that it should primarily advise the government on SME-friendly policies and assist businesses in locating capital. He also believed that the directorate could develop SMEs through government contracting set-asides, and that his bank would be interested in working with the directorate in establishing incubators for SMEs. Finally, Raisi advocated for the government's establishment of a loan guarantee program, similar to the one that the Bank of Beirut employs with assistance from the Lebanese government.

¶10. (SBU) Qamar Saleem, Senior Manager for Business Banking at HSBC, agreed that the SME sector was ready for expansion, and that his bank had rolled out a number of products to attract clients. Building on its 2,000 SME client base would be important for the bank's growth, according to Saleem, since he projected that there were 20,000 bankable SME accounts in Oman. Saleem differentiated HSBC from ODB in terms of loan turn-around time, product offerings, international reach, and assistance in managing business activities such as accounts receivable. To assist in fostering SME growth in Oman, he recommended that the government not only work to establish a forum for discussing SME issues, but also to promote the establishment of a credit bureau as well as credit loan guarantee authority. (Note: HSBC only lends to existing companies. End Note.)

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Preliminary Findings  
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¶11. (SBU) Based on the discussions with Oman's SME stakeholders, BAH Project Manager John Mennel reported to Ministry of Commerce and Industry Under Secretary for Administrative, Financial, and Regional Affairs Ahmed Sulaiman Saleh al-Maimani on June 11 that in order to achieve the government's desired outcome in terms of SMEs generating greater employment opportunities, it needed to clearly define what constitutes a SME in Oman, create a more comprehensive database regarding the prevalence of SMEs in the market, promote SME development beyond the boundaries of Muscat, and sharpen the focus of both the SME directorate in the Ministry and the SME advisory committee. Maimani appreciated these initial findings, stating that SME development, particularly in the industrial sector, was a "top priority" for the Ministry. He added that the SME Directorate would play an essential role in changing embedded cultural expectations, so that more Omanis would become "job providers, not job seekers."

¶12. (SBU) To this end, Mennel previewed the three roles that the SME Directorate could play in fostering sector growth. Most importantly, the BAH consultant highlighted the directorate's role as an "agenda setter," where the office could establish a uniform definition of an SME, develop data points for reporting the state of SMEs, advocate for SME-friendly regulations, and lead government-wide SME efforts through an already established advisory committee. With additional resources, Mennel stated that the SME Directorate could become a "cluster developer" by providing SMEs with information on subcontracting opportunities, as well as pushing for SME subcontractors in large government tenders. Finally, Mennel previewed the potential of the office providing training and consultancy services to interested stakeholders.

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Comment  
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¶13. (SBU) The MEPI-funded team was well-received by the Ministry of Commerce and Industry, as well as by other SME stakeholders. Through this initiative, the SME Directorate, which is relatively new, should be able to find its place among Oman's various SME programs. Of primary importance will be the ability of the directorate to claim a leadership position in advocating for SME-friendly regulations and coordinating SME activities in Oman. However, the office will need the Minister of Commerce and Industry's assistance in gaining legitimacy on the inter-ministerial level. Furthermore, growing SMEs in Oman will depend upon how well the Directorate can promote a shift in the cultural perspectives of Omanis, as well encourage Oman's large trading houses to subcontract with SMEs. End Comment.

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